

City of Copperas Cove

Information Item No.

JULY 15, 2016

SALES AND USE TAX REDISTRIBUTION

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SUBJECT: SALES AND USE TAX REDISTRIBUTION PROVIDED FOR IN HOUSE BILL 157 UNDER THE 84TH REGULAR SESSION OF THE TEXAS LEGISLATURE.

1. BACKGROUND/HISTORY

During the 84th Regular Session of the Texas Legislature, House Bill 157 passed with an effective date of September 1, 2015. The bill was signed into law by the Governor on June 20, 2015. The text for the house bill is attached to the update.

During the 2015 annual evaluation of the City Manager, Council set a goal for the City Manager to educate the Council on HB 157. Thus, during a workshop held on December 1, 2015, the City Manager provided the Council with the HB 157 language and received direction to schedule a future workshop that presents financial data outlining the impacts such a change in the distribution of the sales tax revenue would have on the Copperas Cove Economic Development Corporation. On June 7, 2016, City staff provided financial data outlining the impacts a redistribution of the sales tax would have on economic development and on June 21, 2016, City staff and CCEDC staff provided the operational impacts a redistribution of the sales tax revenue would have on both organizations. During the June 21, 2016 Workshop, City Council directed CCEDC staff to provide the financial impact a reduction of 1/8 of a cent would have on the CCEDC's FY 2017 Budget. Thus, on July 7, 2016, CCEDC staff presented the FY 2017 Proposed Budget as prepared and with a 1/8 of cent reduction in sales tax. The Council directed staff to bring a future agenda item for consideration to add a measure to the November 2016 ballot reducing the CCEDC sales tax by 1/8 of a cent and increasing the City's general revenue sales tax by 1/8 of a cent.

FINDINGS/CURRENT ACTIVITY

As staff prepared the ballot language, Legal advised the language in HB 157 could result in unintended consequences. Legal noted that many cities wishing to reallocate sales and use tax from one entity to another included language on the ballot to reduce the rate for one entity with the language to increase the rate for the other. However, by going through a two-step process the City risks the voters approving the reduction to one entity by not the increase to the other entity

(disapproving the increase). If the situation described occurred, the City's total sales tax rate would simply decrease.

Following the notice from Legal, the question was posed to Legal about adding a single measure to the ballot to reduce the CCEDC sales tax by 1/8 of a cent and add 1/8 of a cent dedicated for either street maintenance or parks. Legal replied that the measure to add a dedicated sales tax for street maintenance is allowed as one measure and would read as follows:

The reduction in rate of the sales and use tax collected by the City of Copperas, for purposes authorized by Chapters 501, 502 and 505 of the Texas Local Government Code, from one-half of one percent to three-eighths (3/8) of one percent, and the adoption of a sales and use tax in Copperas Cove at a rate of one-eighth (1/8) of one percent to provide revenue for maintenance and repair of the municipal streets.

To add a sales tax dedicated for parks, a multi-step process is also required based on Texas Local Government Code Chapter 334 Subchapter B that involves receiving approval from the State Comptroller and transit authority to ensure the planned project would not have a significant negative fiscal impact on state revenue or the transit authority's ability to provide services and that it would not impair any existing contracts of the transit authority. The process required in Subchapter B would not be met in sufficient time to place a measure on the November 2016 ballot. Additionally, if the City wanted to utilize current CCEDC funding for parks improvements/projects, the Council could add a measure to the ballot to use 4A funds for an authorized 4B project and the need to reduce the CCEDC sales tax rate would be unnecessary.